The Kroger Co.
Annual Report
1951

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President

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Partner, A. T. Kearney & Co.

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President's Letter

The net operating income of The Kroger Co. in 1951 was $9,112,940 or $2.48 per share. In 1950 Kroger net income, all from operations, was $13,087,542 or $3.56 per share. While operating results showed a reduction in 1951, a non-operating profit of $3,545,000 on which no Federal income tax is payable was created through the sale-lease of our Cincinnati factory. This non-recurring profit, added to operating earnings, resulted in a total net income of $12,657,940 or $3.45 per share. Dividends of $1.85 were paid in 1951.

Kroger's sales reached $997,086,223 in 1951, an increase of $135,843,581 or 16% over 1950. About half of this increase was due to additional tonnage, the remainder to higher price levels. Although Kroger sold the greatest volume of merchandise in its history last year, net operating income was adversely affected by (1) governmental price controls, (2) higher operating costs and (3) higher Federal income tax rates.

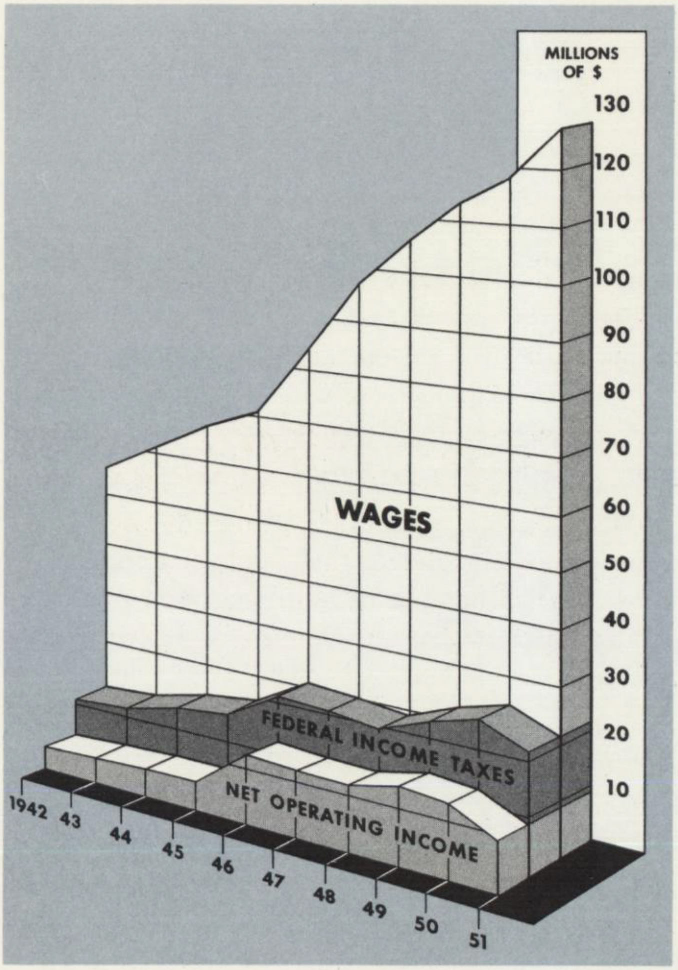
Price ceilings established by the Government for grocery and meat items did not recognize either pre-Korean mark-up margins or the steadily mounting costs of doing business. Rather, they were generally based on the old OPA margins of the World War II period. The Office of Price Stabilization has not yet accepted the realities of current operating conditions in our industry. The Capehart Amendment to the Defense Production Act enabled many manufacturers and processors to secure some measure of relief from their increased costs. Unless the Office of Price Stabilization or the Congress gives recognition to the increased costs of distribution, especially wages, and provides for the necessary adjustments of ceiling prices, the already reduced profits of food chains will be further lowered.

Wage costs increased $12,018,000 over 1950. To date, we have seen little effect from wage stabilization. Rentals and other fixed costs have increased. Federal income taxes increased

from $11,487,000 in 1950 to $12,597,600 last year, in spite of lower operating earnings. Our effective Federal income tax rate increased to 58% from the 1950 rate of 47%.

In October the company consummated a $14,000,000 loan, bearing interest at 3.1% and repayable over twenty years. This $14,000,000 and the $5,000,000 received from the sale of the Cincinnati factory have been used to expand working capital and to provide funds for capital expenditures.

Cash on hand at the year-end was $30,128,288 and net working capital, $61,528,850. At the close of 1950 our net working capital was $49,918,283. At year-end, total inventories were $79,170,757. No bank loans have been outstanding since the completion of the October financing.

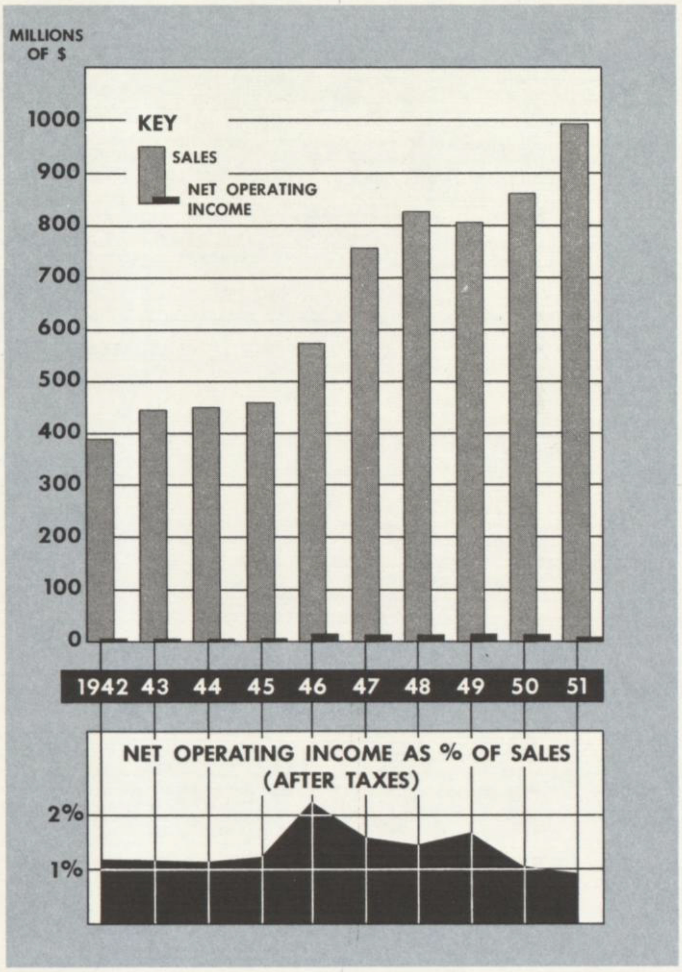


During 1951 the company opened 183 new, relocated and remodeled stores. The restrictions on new store construction established by the National Production Authority will limit our store program in 1952. However, there were 78 stores in process of construction at the year-end. We anticipate that approval will be secured from the National Production Authority for a small number of additional stores this year.

New warehouses and offices have been completed at Pittsburgh, Pa. and Nashville, Tenn., and a grocery storage warehouse is being built at Cincinnati, Ohio. We hope to obtain authorization from the National Production Authority to build warehouses at Toledo, Ohio and Charleston, West Virginia in 1952. Our increased volume of operations in recent years requires this enlargement of our operating facilities.

Capital expenditures in 1951 for store equipment and leasehold improvements were $11,020,703; for warehouses and warehouse equipment $4,819,607; for transportation equipment $1,347,647; for manufacturing equipment $1,206,332; and for all other purposes $196,616; a total of $18,590,905. Depreciation and amortization charges for the year were $8,611,558.

The Employees' Savings and Profit Sharing Plan, authorized by the stockholders in March, was inaugurated at mid-year. Ninety-five per cent of eligible employees are now members of the Plan and are making regular savings deposits. Their total deposits at the year-end were $943,655 and are now running at the annual rate of $2,500,000. The Kroger Co. contributed $665,344 to the profit sharing fund out of 1951 before-tax earnings. While the Plan is still in its infancy, we note an increased profit consciousness in our employees, which should result in substantial operating savings for Kroger.



Under the provisions of the Stock Option Plan voted by the stockholders last year, options for the purchase of 148,320 shares were issued to 338 officers and executives. No options were exercisable at December 29, 1951.

Sales for 1952 should total well over a billion dollars. Costs of doing business, especially wages and taxes, will rise. Continued control of prices by the Office of Price Stabilization will adversely affect profit margins. Efforts to secure justified relief will be continued. Steps are being taken to reduce operating expenses wherever possible. The employees' participation in operating earnings should help to secure increased efficiency. The Kroger team has done well in 1951. We can expect continued good performance in 1952.

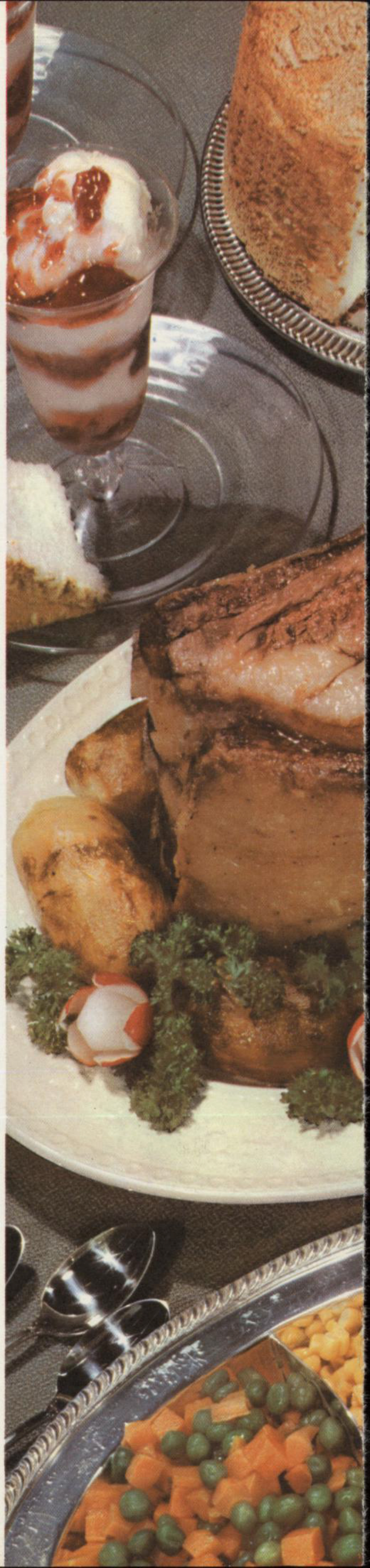
Respectfully submitted,

Joseph B. Hall

February 8, 1952.

President

"The proof of the pudding... is in the eating"



The Kro

Consolidated Balance

ASSETS

Cash			$ 30,128,288
Receivables			3,572,420
Inventories of merchandise (Note 1)			79,170,757
Store and general supplies			4,271,528
Prepaid insurance, rent and taxes			951,954
TOTAL CURRENT ASSETS			118,094,947
Investment in subsidiary insurance company at cost (Note 2)			1,776,361
Land, at cost or less		$ 1,486,271	
Buildings, at cost or less	$ 12,948,269		
Machinery and equipment, at cost	62,097,307		
	75,045,576		
Less allowance for depreciation	29,444,500	45,601,076	
TOTAL FIXED ASSETS			47,087,347
TOTAL ASSETS			$166,958,655

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Sheet — December 29, 1951

Liabilities

Accounts payable			$ 28,924,607
Accrued expenses			11,800,681
Provision for Federal taxes, current and prior years			15,840,809
Total Current Liabilities			56,566,097
Long-Term Notes (Note 3)			14,000,000
Employees' Benefit Fund			2,302,379

Capital

Preferred capital stock, par $100:			
First preferred, 6%, 279 shares outstanding	$ 27,900		
Second preferred, 7%, 172 shares outstanding	17,200	$ 45,100	
Common capital stock, without par value:			
Authorized 5,000,000 shares			
Outstanding 3,673,178 shares		33,671,735	
Accumulated earnings (Note 3)		60,373,344	94,090,179
Total Liabilities & Capital			$166,958,655

Consolidated Statement of Income

Years Ended December 29, 1951 and December 30, 1950

	1951	1950
Sales	$ 997,086,223	$ 861,242,642
Cost of sales	847,062,115	726,038,990
Operating and general expenses	128,313,568	110,629,110
Total	975,375,683	836,668,100
Income before Federal taxes on income	21,710,540	24,574,542
Federal taxes on income	12,597,600	11,487,000
Net operating income	9,112,940	13,087,542
Profit from sale of real estate	3,545,000	—
Total net income	$ 12,657,940	$ 13,087,542

Consolidated Statement of Accumulated Earnings

Year Ended December 29, 1951

Accumulated earnings—December 30, 1950		$ 54,513,661
Total net income for 1951	$ 12,657,940	
Dividends declared in 1951	6,798,257	5,859,683
Accumulated earnings—December 29, 1951		$ 60,373,344

Notes to Financial Statements

1. Inventories of merchandise are valued in part on the LIFO basis and in part at the lower of cost or market.
2. The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire preferred stock and 66⅔% of the common capital stock of that company, and is carried on the books at cost. At December 29, 1951, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to $1,643,056. Total assets of the insurance company, so determined amounted to $7,416,346 consisting principally of cash, U. S. Government securities and other marketable securities aggregating $6,724,587. Operations of the insurance company for the year 1951 resulted in a profit of $11,884. A dividend of 5% ($52,500) was paid on the preferred stock of the insurance company in 1951.
3. Notes bearing interest at 3.1% mature October 1, 1971. Annual prepayments of $700,000, without premium, are required beginning October 1, 1961. Any of the notes may be prepaid at the option of the company at premiums provided in the loan agreement. Payments of cash dividends are limited to earnings subsequent to December 29, 1951, plus $18,278,000 of accumulated earnings existing on that date.

Report of Certified Public Accountants

To The Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary company as of December 29, 1951, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings, together with the information regarding stock options included elsewhere in the Company's annual report, present fairly the consolidated financial position of The Kroger Co. and subsidiary company at December 29, 1951, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

Cincinnati, Ohio
February 8, 1952

Financial and Operating Statistics

	1951	1950	1949	1948	1947
SALES	$997,086,223	$861,242,642	$807,739,440	$825,668,323	$754,282,085
NET INCOME	$ 12,657,940	$ 13,087,542	$ 13,636,564	$ 11,811,120*	$ 12,110,976*
NET INCOME PER SHARE	$3.45	$3.56	$3.71	$3.21*	$3.29*
DIVIDENDS PER SHARE	$1.85	$1.875	$1.75	$1.50	$1.50
NUMBER OF SHAREHOLDERS	26,254	26,144	27,041	27,436	27,421
NUMBER OF STORES	1,978	2,054	2,190	2,349	2,516
NUMBER OF EMPLOYEES	26,864	25,775	26,161	24,969	23,953
CASH	$ 30,128,288	$ 25,869,452	$ 20,300,337	$ 19,745,290	$ 20,611,352
MERCHANDISE INVENTORIES	79,170,757	72,223,385	64,380,938	63,956,574	64,710,122
NET WORKING CAPITAL	61,528,850	49,918,283	51,406,979	50,295,776	50,434,510
ACCUMULATED EARNINGS	$ 60,373,344	$ 54,513,661	$ 48,316,510	$ 41,110,925	$ 34,807,927
NET WORTH	94,090,179	88,230,496	82,033,545	74,828,460	68,564,962
NET WORTH PER SHARE	$25.60	$24.01	$22.32	$20.36	$18.64

*Before Reserves

Kroger

Live Better for Less